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# Financial Inclusion for Rural Microenterprises (FIRM)

## Annual Workplan

October 1, 2014 – December 31, 2015

**October 30, 2014**

This publication was prepared for review by the United States Agency for International Development. It was prepared by DAI.

# **Financial Inclusion for Rural Microenterprises, AID 623 BC II 0000I**

## **Annual Workplan**

**OCTOBER 1, 2014 – DECEMBER 31, 2015**

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

# TABLE OF CONTENTS

<b>ACRONYMS AND ABBREVIATIONS.....</b>	<b>30</b>
<b>I. EXECUTIVE SUMMARY.....</b>	<b>31</b>
PROGRAM IMPACT .....	31
Agriculture.....	<i>Error! Bookmark not defined.</i>
Renewable Energy.....	<i>Error! Bookmark not defined.</i>
Gender/Youth.....	<i>Error! Bookmark not defined.</i>
Policy and Regulatory Reforms.....	<i>Error! Bookmark not defined.</i>
<b>II. PROGRAM MANAGEMENT .....</b>	<b>33</b>
I.1 PERSONNEL .....	34
I.2 PARTNERS, BSPs, CONSULTANTS .....	34
I.3 MONITORING & EVALUATION .....	34
I.3.1 Performance Management Plan (PMP).....	34
I.3.2 Poverty Assessment Tool (PAT) .....	35
I.3.3 Credit Management System (CMS) .....	36
I.3.4 Microenterprise Results Reporting (MRR).....	36
I.4 COMMUNICATION STRATEGY .....	34
I.5 BUDGET .....	37
<b>III. SELECTING PROMISING DEALS TO PROMOTE RURAL FINANCE .....</b>	<b>38</b>
NEW DCA GUARANTEES – FY 2013/2014 .....	38
Agriculture.....	38
Water .....	38
SME .....	38
Health .....	38
Clean Energy.....	38
TA TO BUILD CAPACITY OF FINANCIAL SERVICE PROVIDERS .....	38
<b>COUNTY INVESTMENT PLANS .....</b>	<b>39</b>
<b>ENERGY INVESTMENT FACILITATION.....</b>	<b>40</b>
<b>IV. PARTNERSHIPS WITH OTHER USAID-FUNDED PROJECTS .....</b>	<b>41</b>
KENYA HORTICULTURE COMPETITIVENESS PROJECT (KHCP) .....	41

KENYA DRYLANDS LIVESTOCK DEVELOPMENT PROGRAM.....	41
<b>VI. ENVIRONMENTAL ISSUES .....</b>	<b>44</b>

## ACRONYMS AND ABBREVIATIONS

ABEO	Agriculture Business and Environment Office
CBK	Central Bank of Kenya
CRB	Credit Reference Bureau
COFI	Community Owned Financial Institution
DCA	Development Credit Authority
DTM	Deposit-Taking Microfinance
FIIF	Financial Inclusion and Innovation Fund
FIRM	Financial Inclusion for Rural Microenterprises
FSAs	Financial Services Associations
FSD	Financial Sector Deepening
FTF	Feed the Future
FTFMS	Feed the Future Monitoring System
GPS	Global Positioning System
IRA	Insurance Regulatory Authority
KCISI	Kenya Credit Information Sharing Initiative
KDLDP	Kenya Drylands Livestock Development Program
KFIE	Kenya Feed the Future Innovation Engine
KHCP	Kenya Horticulture Competitiveness Program
KLIFT	Kenya Livestock Finance Trust
KMT	Kenya Market Trust
KOOFA	Kenya Organic Oil Farmer Association
KWFT	Kenya Women's Finance Trust
LTTA	Long-Term Technical Assistance
MCL	Molyn Credit Limited
MFI DTM	Microfinance Institution Deposit-Taking Microfinance
MFI NGO	Microfinance Institution Non-Government Organization
MFS	Milango Financial Services
MFT	Microfinance Trust
MRR	Microenterprise Results Reporting
NESC	National Economic and Social Council
PCGA	Private Capital Group for Africa
PAT	Poverty Assessment Tool
PMP	Performance Management Plan
RBA	Retirement Benefits Authority
SCL	Safaricom Limited
SMEP	Small and Medium Enterprise Program
STTA	Short-Term Technical Assistance
USAID	United States Agency for International Development
VCFC	Value Chain Finance Center

## **I. EXECUTIVE SUMMARY**

FIRM facilitates the expansion and innovation of financial services in three thematic areas key to the development of Kenya's economic growth and prosperity: agriculture, renewable/clean energy and policy reform. FIRM also capitalizes on opportunities that can potentially advance the frontier of financial services into, for example, water, health, and education, in order to benefit marginalized and excluded populations across Kenyan society.

FIRM works in partnership with and supports a wide variety of commercial actors in the financial services industry, government of Kenya agencies and stakeholders, associations, donors, business service providers, and consultants. FIRM uses the Financial Inclusion and Innovation Fund (FIIF) to underwrite costs associated with these partnerships. FIRM also continues to manage and grow USAID's Development Loan Guarantee program in crucial implementation areas. USAID's DCA portfolio in Kenya stands at \$93 million, and growing. The target sectors are agriculture, renewable/clean energy, SME and water.

FIRM's technical assistance to partners includes development of agriculture finance strategies, financial product development, financial modeling for producer groups, strengthening agriculture value chains through financial and market linkages, institutional strengthening which includes development of operational manuals and capacity building. In partnership with the Government of Kenya, FIRM is working with National Economic and Social Council (NESC) to develop a national credit guarantee scheme. FIRM has worked with NESC to draft the Credit Guarantee Policy and Bill pending enactment later this year. In addition, FIRM assisted Kenya Credit Information Sharing Initiative (KCISI) to develop a platform for DTMs and Banks to share client information through licensed Credit Reference Bureaus (CRBs).

Ultimately, FIRM's partnership with financial and non-financial institutions improves access to financial services for rural microenterprises, benefiting individuals, households, and small businesses previously excluded.

In 2014, FIRM received a modification which increased the overall budget of the project and incorporated new activities supporting the newly established County Governments as well as an expanded emphasis on supporting renewable energy projects. With this expanded scope, FIRM has established strong working relationships with five partner counties and has grown its pipeline of private-sector renewable energy deals to approximately 20.

### **Program Impact**

FIRM's qualitative impact continues to grow as a result of deepening the achievements from the current partnerships. This growth continues as FIRM expands its network, especially outside traditional financial institutions, such as banks, DTMs and MFIs. The project continued to build upon the successes achieved in the previous year and added new partners with potential to increase financial inclusion to marginalized groups. Currently, FIRM has over 150 partnerships in agriculture finance, financial policy reforms, county and clean/renewable energy pillars.

FIRM recorded significant impact its five key areas as outlined below:

## **Agriculture**

FIRM increased its rural focus and achieved this by working directly with formal rural based financial institutions and informal rural groups formed around socio economic goals. FIRM further partnered with associations that support rural based financial institutions such as KERUSSU (Kenya Rural Sacco Union) and leveraged on partners working with informal financial models such as the East African Dairy Development (EADD) project. FIRM is currently working directly with 35 rural based financial institutions across Feed The Future (FTF) counties.

Under partnership with EADD, FIRM built the capacity of 13 Financial Service Associations (FSAs) and developed their manuals to assist streamline their operations and related costs, benefits that will trickle down to the farmer on loan pricing. From this exercise and with further technical assistance from FIRM, three of the larger FSA will be merging into a SACCO. FIRM worked with KERUSSU to develop its overall strategy that aims to increase its ability to effectively support rural SACCOs and continues to assist the Union on the implementation aspects. FIRM is concurrently working directly with 4 of the union's members to strengthen their ability to innovatively finance their rural sphere.

FIRM is keen to leverage on ICT and through a pilot with PanXchange, an online trading platform, was able to assist approximately 120 small holder grain farmers bulk and sale their grain to grain handlers and national millers. The pilot realized sales volumes of Kes.6.1M from 890 tonnes of grain. Once complete, this on line platform will not only assist small holder bulk and sale their grain but also steer the use of warehouse receipts as a short financing tool, enabling farmers access finance without having to sell their grain and throw away prices. FIRM also developed a post-harvest product for the Soko Shambani platform. The product will enable the platform access a total of USD20M from Kiva for on lending to small holders post-harvest. The product is competitively priced at 5% per annum for a maximum loan term of 14 days and will assist the farmers with harvesting, packaging and transportation costs; aspects that hinder timely delivery of potatoes to restaurants within Nairobi and allow for brokers to manipulate the potato value chain. FIRM will play an oversight role on disbursement and impact of these loans.

FIRM was also keen to support inclusion in the (Arid and Semi-Arid Land) ASAL regions and has partnered directly with three *Sharia* compliant institutions to assist in their capacity and delivery aspects these are Vuna SACCO, Northern Rangeland Trust (NRT) and Crescent Takaful SACCO.

## **Renewable Energy**

On the clean renewable energy, under Power Africa initiative, FIRM is involved in three initiatives directly related to increasing the number of energy projects that can be financed under Power Africa. These include facilitating the development of renewable energy generation projects, training on installation of solar PV and conducting an exploratory study and curriculum development on solar water heating. On energy project development, initial technical support through FIRM has been conducted for Tindinyo Falls Resort Ltd's Hydro project and Northern Energy's biomass project. There are other projects lined up for the coming year.

On solar PV, FIRM has signed a memorandum of understanding with the Kenya Renewable Energy Association to train solar PV installers through Government of Kenya accredited training institutes. This will increase compliance with Kenya's regulations on Solar PV

FIRM has partnered with the NESC and Energy Regulatory Commission (ERC) to conduct a study on solar water heating. The study will include a sectorial overview and guidelines for curriculum development to increase usage of solar for water heating and increase compliance with the water heating regulations.

## **Gender/Youth**

To curb financial marginalization, FIRM has partnered with women and youth owned financial institutions that target women and youth as the niche market. Through these partnerships FIRM has strengthened and increased the efficiency of these institutions and is working towards assisting them developed market-led rural financing products that innovatively mitigating risk associated with financially marginalized groups. Key partners on this front are Joyful Women (JOYWO), Federation of Women Entrepreneur (FEWA) SACCO, Sky SACCO, Moi Nab SACCO, Kisii County Youth Bunge SACCO, Jiinue Credit, Makueni AKA Cooperative and Rafiki Microfinance Bank.

## **Policy and Regulatory Reforms**

On policy, FIRM focused on implementation of developed policies and continued to support initiatives enhancing and supporting inclusion. With National Economic and Social Council (NESC), FIRM presented the draft National Credit Guarantee Bill and Policy to the Cabinet Secretary and the Economic Secretary National Treasury. The National Treasury is establishing a committee to work with NESC and FIRM with an aim of introducing the Bill to parliament. It is important to note that the Bill and Policy had an accompanying document (scenarios report) that gave recommendations how to handle the current guarantee schemes. Some of the recommendations from the scenarios report are already been discussed for implementation by the Government of Kenya; such the consolidation of all the guarantee funds into one large fund that is professionally managed. On credit information sharing, FIRM partnered with Metropol Credit Reference Bureau (CRB) to create awareness on the need for and use of credit report in Rural Kenya. The exercise covered 10 rural counties and trained 1,938 rural micro-entrepreneurs. Of the trained 640 applied for credit reports and will benefit from an agreement between Metropol and commercial banks to receive lower interest rates on their loans and faster loan processing time. FIRM continues to support the Kenya Association of Credit Providers in strengthening its mandate and establishing its value addition as an association that all credit providers from all sectors in Kenya are keen to join.

## **County Support**

During year 4, FIRM began working with the newly established County Governments in Kenya. Through a series of listening tours and conversations with counties across Kenya, FIRM developed an approach that helps county governments develop priorities, prioritize the utilization of scarce financial resources, identifies gaps in capacities, and develops strategies to engage and encourage increased private sector investment. FIRM now has partnerships with five counties, namely Bomet, Homa Bay, Machakos, Taita Taveta, and Nairobi. The partnership with each of the first four counties began with a review of each County's Integrated Development Plan (CIDP) and a series of discussions regarding the ongoing challenges facing the counties and potential strategies to overcome these challenges. Next, FIRM supports the County to develop a Strategic Investment Plan (SIP) which provides a roadmap for achieving the goals presented in the CIDP as well as approaches to engage and encourage private sector-led growth. Finally, through the SIP process, FIRM



identifies additional areas of support in that are in alignment with the SIP and also seeks to leverage support from other USAID projects as well as other donor partners.

## **II. PROGRAM MANAGEMENT**

### **I.1 Personnel**

In Year 5, the project will begin to play for eventual closedown at the end of 2015. In terms of personnel, the project management will develop a phased staffing approach. A formal closedown plan, including our approach to staffing phase-out, will be submitted to USAID for approval per the terms of the contract. At this point, we anticipate staffing reductions to begin in approximately July 2015, and vacancies may not be filled.

### **I.2 Partners, BSPs, Consultants**

The FIRM project has an extensive list of more than 60 prequalified vendors who were shortlisted through a process of competitive expression of interest. The list is updated by requesting interested service providers to express interest every year. The advert is placed in a local newspaper.

The pre-qualified Business Service Providers (BSP) will have expertise, skills and proven Kenyan experience. Individuals and BSPs pre-qualified by DAI are then requested by invitation to bid through a request for proposal (RFP), or Curriculum Vitae (RFCV) or request for quotation (RFQ) on activities contracted through USAID FIRM project. The FIRM project doesn't have subcontracts or grants.

### **I.3 Monitoring & Evaluation**

#### **I.3.1 Performance Management Plan (PMP)**

FIRM continues to report on inclusive FtF indicators unveiled in FY2011/2012. These are contractually agreed upon between USAID and FIRM in the revised PMP. These FtF indicators are highlighted below. The annual targets and definitions are available in the PMP.

- 4.5.2(5): Number of farmers and others who have applied new technologies or management practices as a result of USG assistance (changed in September 2014 through FtF guides)
- 4.5.2(11): Number of food security private enterprises (for profit), producers organizations, water users associations, women's groups, trade and business associations, and community-based organizations (CBOs) receiving USG assistance
- 4.5.2(12): Number of public-private partnerships formed as a result of FTF assistance
- 4.5.2(13): Number of rural households benefiting directly from USG interventions
- 4.5.2(25): Number of people with a savings account or insurance policy as a result of USG assistance

- 4.5.2(27): Number of members of producer organizations and community based organizations receiving USG assistance
- 4.5.2(29): Value of Agricultural and Rural Loans
- 4.5.2(30): Number of MSMEs, including farmers, receiving USG assistance to access loans
- 4.5.2(37): Number of MSMEs, including farmers, receiving business development services from USG assisted sources
- 4.5.2(38): Value of new private sector investment in the agriculture sector or food chain leveraged by FTF implementation
- 4.5.1(24): Numbers of Policies/Regulations/Administrative Procedures in each of the following stages of development as a result of USG assistance in each case: (Stage 1/2/3/4/5)

As noted in past annual plans the targets set for the above indicators at the time of FtF alignment were also revised in year 3. In FY 2013/2014, USAID approved revised targets for indicator 4.5.2(30). In FY 2015, FIRM M&E team will continue to track and use the on-line Feed the Future Monitoring System (FTFMS) to report quantitative project performance data for each of these indicators. It is also expected that the indicators will increase due to FIRM's contract modification in FY 2014 to include activities in county investment support and large-scale renewable energy projects. This however awaits the approval of COR/AOR.

### **1.3.2 Poverty Assessment Tool (PAT)**

USAID regulations require that a project with microenterprise component annually reports on the "very poor" clients reached. In fulfillment of this obligation, FIRM has thus planned to carry out a Poverty Assessment Tool (PAT) survey in Quarter two. The findings of this survey shall be presented in form of a report to USAID/ Kenya ABEO, the MRR team, and the PAT Help Desk. The findings of this survey will be useful in generating strategic control measures for the project in bid to expand its reach to more deserving beneficiaries. The survey will also provide new data on the profile of our partners' clients. The findings will also form good fodder for the final evaluation of FIRM's impact.

FIRM M&E team has in the past been satisfied by the findings from the survey design employed. In the design, beneficiaries in the period between October 1, 2012 and September 30, 2014 will be considered when determining the sample population. Due to time and other resource constraints, the sample will be selected with a bias towards the FtF Zones of influence. It will comprise approximately 300 clients from MFIs and SACCOs, selected through random sampling and spread across selected FtF zones. Mapping of the partner institutions' branch and client locations will be carried out, and based on the results of the mapping process, logistical planning will begin and the schedule will run according to the timelines set in the implementation plan. During fieldwork, quality control measures will include a daily review of the interview process and milestones accomplished for each interviewer, so as to ensure all questionnaires are completed accurately and the daily targets set are achieved.

### **1.3.3 Credit Management System (CMS)**

FIRM will keep using monitoring the Credit Management System (CMS) on behalf of USAID Kenya to ensure compliance and timely reporting by DCA partners. CMS enables the Financial Institutions to interact with the USAID Kenya Mission and the Office of Development Credit to ensure credit compliance and monitoring. FIRM DCA manager will ensure that all new partners receive CMS training. Partners report into CMS bi-annually.

In year 5, FIRM will continue to:

- Monitor the frequency, timeliness, accuracy and validity of data reported into CMS by DCA partners
- Follow up on any outstanding Origination and Utilization fees for each reporting period
- Train new DCA partners on CMS guidelines, procedures and reporting process. Next training session will be conducted during the first half of the fiscal year, targeting the new DCA partners

### **1.3.4 Microenterprise Results Reporting (MRR)**

Microenterprise Results Reporting (MRR) is an annual report to the U.S. Congress providing funding and program data on USAID's Microenterprise activities. The MRR online reporting system tracks USAID's progress towards congressionally mandated funding targets and monitors the results of USAID assistance to the microenterprise sector.

FIRM is required to report on technical support to sub-recipients (financial and non-financial institutions) with a focus on rural microenterprises. Since FIRM's Partners are not mandated to carry out MRR, FIRM shall therefore continue to report aggregated data that includes its partners' information. This report will be submitted during the second quarter of the fiscal year.

### **1.3.5 Environmental Monitoring and Mitigation Plan (EMMP)**

The Environmental Mitigation and Monitoring Plan (EMMP) describes how the Kenya Financial Inclusion for Rural Microenterprises (FIRM) will meet or exceed the requirements of the SO 7 Initial Environmental Evaluation (IEE) and Threshold Decision (and conditions established therein), approved by the Bureau Environmental Officer, and complying with USAID environmental regulations (Regulation 216 and ADS 204).

In year 4, FIRM built the capacity of financial institutions in environmental screening, assisted 11 partners to develop institutional environmental policies, and developed a template to assist future partners come up with similar policies. Fidelity to these policies shall ensure environmental soundness, compliance with local environmental laws and ensure USAID's ability to assess impact.

In year 5, FIRM will continue to monitor the environmental impact and compliance of the existing and new partners. However, as noted in year 3, FIRM's partners fall in the categorical exclusion category with low risk of possible negative and undesirable impact to the environment. However, FIRM shall continue to build partners capacity in paying attention to this possible danger.

## **1.4 Communication Strategy**

FIRM will improve its communications plan through increased documentation, sharing and project reviews in a regular and systemic manner. FIRM will continue to develop, produce and share communications materials which are an integral part of project deliverables. Some of these deliverables include: quarterly reports, annual reports, success stories and website updates.

In year 4, FIRM polished its existing comprehensive communications manual which describes in detail the guidelines and procedures to effectively communicate FIRM's progress to USAID, GOK, FIRM's partners, beneficiaries and other audiences. Further, FIRM built out a strong social media presence with constantly updated Facebook and Tumblr pages.

FIRM's communications team will continue to attend USAID-led monthly meetings for implementing partners organized and hosted by USAID's Development Outreach and Communications (DOC) office. Through these meetings, FIRM will continue to network with other USAID implementing partners, share a calendar of events and maximize on the opportunities to further publicize project activities and achievements through the DOC team. FIRM will also continue to provide success stories to USAID on a weekly basis, and ensure that, through the DOC team, activities and success stories are featured on various USAID communications platforms, including Frontlines, Agro-Link, FTF newsletter, Impact Blog and the USAID Kenya website. FIRM website will also be regularly updated in year 4.

Whenever possible, FIRM will exploit other strategic information and communication channels which can raise awareness of FIRM, FIRM's partners, technical expertise and accomplishments within its portfolio. Such channels will include but not limited to media opportunities, social media, sector-specific exhibitions, conferences, meetings and events happening within the country. This will be accomplished through a wide range of media setting up of booths, talks/presentations, distribution of brochures, online and hard-copy newsletters and articles in mainstream and sector media.

## **1.5 Budget**

FIRM continues to engage as much as possible Kenyan partners to provide technical assistance and services to meet the needs of the core scope. With the addition of local funds, FIRM will continue to harness the most sophisticated financial sector in East Africa and one of the leading economies of sub-Saharan Africa to obtain support and build capacity in the area of financial services. The pace of innovation and change is quickening. These two factors have combined to create the conditions to reconfigure FIRM, gearing it to meet the evolving needs of the sector thus ensuring overall success.

Entering the 5<sup>th</sup> year of the project, FIRM will prepare and submit to USAID a budget realignment request. The purpose of this realignment will be to take into account DAI's new cost structure, ensure that LOE for the project is properly aligned to the needs and approaches presented in this workplan, take into account changes in allowances recently adopted by the US Embassy in Kenya, reflect anticipated closedown schedule, and maximize the amount of funds going to the Financial Inclusion Innovation Fund and the County and Energy Innovation Funds to access the growing market of professional and proven Kenyan expertise to support FIRM activities.

### **III. SELECTING PROMISING DEALS TO PROMOTE RURAL FINANCE**

FIRM manages Kenya's DCA Loan Guarantee program on behalf of USAID. As at 30 September 2013, USAID Kenya has \$92M in DCA loan guarantees with 13 financial institutions in Kenya. In Year 5, FIRM will continue to work with the Office of Development Credit to explore more DCA partnerships in the agriculture, clean energy and water sectors, in line with USAID Kenya's overall development objectives, Feed the Future Strategy and Power Africa Initiative.

#### **New DCA Guarantees – FY 2013/2014**

##### **Agriculture**

- **Rafiki DTM Kenya:** A \$2.5 million, 5-year Loan Portfolio Guarantee (LPG) to encourage uptake of rain-index crop-insurance products among Kenyan agriculture value chain actors

##### **Water**

- **Housing Finance Kenya:** A \$6 million, 12-year Loan Portfolio (LPG) to strengthen Housing Finance's ability to extend loans to county water bodies, municipal utilities and other water service providers operating on a commercial basis in Kenya

##### **SME**

- **Africa Guarantee Fund (AGF)/Jamii Bora Bank:** A \$12 million, 5-year Re-Guarantee to strengthen AGF's capacity to provide a partial credit guarantee of a Qualifying Bond Issue in Kenya by Jamii Bora Bank, the proceeds of which will enable Jamii Bora Bank to provide greater access to finance for micro, small, and medium-sized private sector businesses in Kenya

##### **Health**

- **Kenya Commercial Bank/General Electric (GE):** A \$10 million, 10-year Loan Portfolio Guarantee designed to strengthen KCB's ability to lend to non-sovereign enterprises operating in the health sector in Kenya

##### **Clean Energy**

- No new deals closed in Year 3. However, FIRM will continue to engage financiers and other sector stakeholders to identify potential DCA partners

#### **TA to Build Capacity of Financial Service Providers**

In the final year, FIRM's work with our partner financial institutions will continue to mature and shift to reflect the needs and timelines of the project. During late 2014, the FIRM team will complete a portfolio review to examine the impact and success of each partnership.

Moving into 2015, FIRM will slow and eventually cease taking on new partner financial institutions. With less than a year remaining in the project, FIRM will instead focus on documenting the achievement, successes, and challenges of our work with the financial sector and prioritize limited resources to ensure maximum impact.

## **County Investment Support**

FIRM will continue its efforts to directly support partner County governments as well as work in collaboration with the Council of Governors, especially to explore strategies to help the Counties work together to attract investment and financing for development project.

Below is a list of illustrative activities FIRM will seek to undertake this year. As FIRM works with counties, new activities may be identified and some of these pre-identified illustrative activities may not be pursued depending on the resources and time available as well as the CoG and Counties' priorities. FIRM will keep USAID up to date on changes in approaches as they are needed.

### **POTENTIAL ILLUSTRATIVE ACTIVITIES**

- Build the capacity of partner counties to better understand and initially prepare PPP-type projects;
- Collaborate with the private sector and national stakeholders to support county development of PPP projects;
- Provide technical assistance to partner county leader in sectors and topics identified through the SIP process;
- Develop a County Youth Internship program in collaboration with the COG and county governments to provide youth with an opportunity to support and witness first-hand the work of county governments.
- Work with the COG and other county leaders to explore options to better attract financing and development assistance to meet the funding gaps currently faced by counties.
- Work with select counties to prioritize opportunities and facilitate the initial steps to pursue priority investment areas. The exact types of support will be determined as opportunities are identified, but are likely to include activities such as pre-feasibility studies, financial structuring assistance, among others. These areas of support will primarily be conducted through FIRM service provision partners.
- Work with the COG to develop their capacity and meet their mandates to provide responsive support to county governments, including the development of assessments and analysis.
- Respond to ad hoc requests from the COG and County Governments for support in areas under our scope of work, including but not limited to technical assistance, event support, publications, and other areas. Such assignments will be considered on a case-by-case basis and agreed upon with USAID.

## **Energy Investment Facilitation**

Energy investment activities in Kenya will require patience and persistence to successfully address the many challenges that inhibit the expansion of power generation and transmission. FIRMs work in the energy sector will seek to support the expansion of investment into energy areas that primarily benefit the agriculture sector, with a focus on facilitating the financial close of small renewable energy products and facilitate expanded access to off-grid energy solutions. Lessons learned to date in activities with Viability Africa, M-Kopa, and KWFT will be expanded into other areas. FIRM will use the Energy Investment Fund (EIF) to underwrite all costs related to this activity.

As with FIRMs work with partner financial institutions as well as county governments, the illustrative activities below may change as new information is obtained and opportunities present themselves.

### **POTENTIAL ILLUSTRATIVE ACTIVITIES**

- Conduct market assessment and compile potential energy project information from available sources, including potentially conducting due diligence analysis.
- In close coordination with USAID and Power Africa and building upon the activity above, to identify bankable projects for support. Working with USAID, activities will support facilitating finance through DCA or perhaps Overseas Private Investment Corporation and U.S Export-Import Bank.
- Provide more direct oversight to the Viability Africa subcontract, ensuring financial close on energy transactions.
- Building off of lessons learned with Viability Africa activity; expand to include other private-sector businesses, industry associations/groups, and county governments.
- Identify and develop new avenues to support expanded access to off-grid energy solutions through new partnerships similar to M-Kopa and KWFT.

## **IV. PARTNERSHIPS WITH OTHER USAID-FUNDED PROJECTS**

FIRM has partnered with other USAID-funded projects to create financial linkages and financial models within various value chains. In the past FY, FIRM has recorded significant progress in value chain financing through partnerships with two key ABEO projects:

### **Kenya Horticulture Competitiveness Project (KHCP)**

The Kenya Horticulture Competitiveness Project (KHCP) is a USAID initiative helping small farmers and allied agribusinesses take advantage of local, regional, and global market opportunities. Designed on the premise that the horticulture industry can be transformative for rural income, employment generation, and food security, USAID-KHCP focuses on enhanced productivity, increased value-addition, improved value-chain coordination, marketing, and trade promotion, improved business environment, and institutional capacity.

FIRM has successfully developed and implemented financial models for USAID-KHCP farmer groups – a case example is Earthoil's farmer groups. FIRM plans to further engage with more KHCP horticulture farmer groups in Bomet and Meru to either replicate the financial models or design and develop products that will enable smallholder horticulture groups across the access affordable financial services.

As a result FIRM will seek to design and develop financial products that will link the groups to affordable credit.

### **Kenya Drylands Livestock Development Program**

The Kenya Dry lands Livestock Development Program (KDLDLP) is helping pastoralist households in northeast Kenya overcome the many existing obstacles to achieving both economic and food security in the region. In an area where the livestock industry provides work for 90% of the labor force and contributing to as much as 95% of family incomes, problems include limited access to financial services, poor access to inputs like seeds and water, unsatisfactory disease control measures, lack of price transparency, poor linkages between producers and markets, and – most immediately – drought due to climate change.

FIRM worked with KDLDLP to set up a Community Owned Finance Institution (COFI) which is a Shariah-compliant savings and credit cooperative. It is the first of its kind to be offered in Kenya and is a remarkable breakthrough for pastoralists, SME's and the Muslim community. The COFI SACCO's goal is to enable pastoralists and lower-income individuals and groups access adequate financial services and promote a dynamic development of these economic sectors. FIRM will build the capacity of the COFI board and staff in June 2013 to facilitate delivery of services to their members.



## **USAID Kenya ASALs Projects/FIRM Collaboration**

USAID/Kenya is supporting several projects as part of its resilience programming in Kenya's ASAL rangelands: They are:

- Resilience and Economic Growth in the Arid Lands–Improving Resilience (REGAL–IR)
- Resilience and Economic Growth in the Arid Lands–Accelerated Growth (REGAL–AG)
- Northern Rangelands Trust (NRT) projects
- The Kenya Arid Lands Disaster Risk Reduction (KALDRR)/WASH
- The Financial Inclusion for Rural Microenterprises (FIRM)

The projects are committed to developing complementary work plans and to operationalizing areas of geographical and technical convergence to ensure that partners do not implement similar activities in the same area or conservancy to avoid duplication of efforts and promote efficient use of resources. The projects have already held a series of meetings to develop a MOU and an Operational Plan that enables partners to identify, elaborate, and finalize areas of collaboration and the roles and responsibilities of each partner.

FIRM has identified potential areas of convergence with WASH. Since WASH is funding water projects that can be commercialized, FIRM will make a market assessment of these projects to link viable and sustainable ones to financial institutions.

In addition, FIRM identified a convergence with NRT. FIRM's expertise in financial inclusion will be an advantage to conservancy groups in the project area. FIRM could link NRT to financial institutions to access soft loans. To benefit from this window and to forge synergies, NRT and FIRM will explore potential opportunities.

## **USAID Kenya Agricultural Value Chain Enterprises (KAVES)**

USAID KAVES is a food security project that will increase the productivity and incomes of 500,000 smallholder farmers and other actors across the strategic value chains of horticulture, dairy, and staple crops. The project will also foster the adoption of innovative technologies to improve nutrition at the rural household level, as well as increase the capacity of key stakeholders to ensure sustainable adoption of improved practice. FIRM has been working with KAVES to assist in developing financial products for various horticulture crops and creating financial linkages for horticulture producer groups. This activity is ongoing and collaborations between the two projects is expected to enhance financial inclusion to many agricultural and rural microenterprises previously excluded from access to credit.

## **USAID Agile and Harmonized Assistance to Devolved Institutions (AHADI)**

AHADI will be USAID/Kenya's flagship program to support the devolution process in Kenya. Per the terms of the AHADI RFP, AHADI will work in 15-20 counties around Kenya and will directly coordinate with other donors as well as all USAID-funded projects. FIRM's work has the potential to overlap with AHADI Objective 1: Local Governance and Service Delivery, specifically with Task 1: Facilitate County Planning and Informed Decision Making; Task 5: Assist Targeted Counties to Raise and Effectively Manage Resources; and Task 6:

Enhance Targeted County Management of Service Delivery. While FIRM will focus on activities to support agriculture, energy and financial services as part of its financial inclusion agenda in working with counties, FIRM will strive to coordinate and share information on its activities directly with AHADI management and through USAID Kenya.

The FIRM project will take a proactive approach to engaging the new AHADI project as soon as possible after the contractor is identified and mobilized. The nature and extent of coordination will evolve over time as AHADI ramps up implementation and expands activities across Kenya. At a minimum, FIRM's coordination with AHADI will initially include:

- Provide an initial briefing to AHADI start-up team regarding FIRM activities in each county;
- As requested, provide personnel to participate in the County Preparedness Study detailed in the AHADI RFP;
- Provide AHADI team with all FIRM county-level contacts in the agriculture, energy, and financial services sectors;
- Provide FIRM-prepared documents regarding county investment plans, including the legal diagnostic discussed in the add-on technical proposal;
- Provide AHADI with the information mapping conducted under the expansion of the Branch Locator process discussed further below to inform county government decision making;
- Include AHADI on FIRM's multi-sectorial advisory committee for the project's county financial inclusion work.
- Provide USAID Kenya and AHADI staff with bi-weekly written updates (also shared with county governments) on FIRM's devolution activities.

FIRM will keep the AHADI team updated on all planned and ongoing activities, ensuring that FIRM's approaches and objectives are in-line with those of AHADI and that resources are leveraged across the projects and duplication of efforts is minimized.

Towards the end of the FIRM project, the team will meet with USAID to discuss which activities may be suitable to be continued further under AHADI and transfer plans will be created to hand off those activities to the AHADI team.

## **V. CROSS-CUTTING ISSUES: GENDER AND YOUTH & ICT**

Over the last four years, FIRM has worked with women, youth and marginalized groups in rural Kenya to increase access to credit, savings, insurance and mobile money transfer services. FIRM's objective in working with these target groups is to strengthen the overall financial system by assisting financial institutions to develop appropriate strategies and market-led products. FIRM has on-going assignments with four financial institutions that have put a special emphasis on youth, women and marginalized groups. They include KWFT DTM, the premier microfinance institution in Kenya serving over 700,000 clients who are all women; Rafiki DTM who have embedded business development services in their lending model to empower the youth to run their own enterprises/businesses successfully; Youth Enterprise Development Fund (YEDF) which is a government-funded project that ensures the youth are able to access credit; and Banking on Change project, spearheaded by Barclays Bank Kenya and Care Kenya, to facilitate financial linkages between community saving groups (whose primary clientele is youth and women) and the financial institution using a mobile banking platform. FIRM will continue to support these partners to escalate and upgrade their operations to reach more rural enterprises and to explore partnerships with other financial and non-financial institutions in order to facilitate development of products and services for women, youth and other vulnerable groups.

In Year 5, FIRM will actively engage youth SACCOs such as Sky SACCO Society to roll out more products and services targeting youth microenterprises in the rural areas. Through devolution, FIRM will also support exchange programs among various youth SACCOs across the country to promote transfer of skills and knowledge, especially for youth engaged in similar enterprises but residing in different counties. Some of the SACCOs FIRM will continue to work with include Nyala Vision SACCO, Sky Sacco Society, United Traders SACCO, COFI SACCO and FEWA SACCO. FIRM will continue to support the umbrella body of rural SACCOs, the Kenya Rural Savings and Credit Co-operative Societies Union Ltd (KERUSSU) in capacity building and institutional strengthening. KERUSSU has a membership of about 70 SACCOs.

## **VI. ENVIRONMENTAL ISSUES**

The key USAID environmental compliance requirements are:

- Potential environmental impacts must be considered and “mitigation measures” or design changes incorporated.
- No funds may be obligated or activities implemented without approved Reg. 216 environmental documentation.
- Any resulting mitigation and monitoring conditions must be written into procurement instruments, implemented and monitored
- Activities that have potentially adverse effects on the environment and human wellbeing are not allowed, or may require extensive impact assessment.
- Environmental compliance must be assessed in annual reports by implementing partners and USAID.

- Environmental compliance documentation must be maintained.

In response to the above requirements, FIRM conducted awareness training to its partners on these regulations, carried out an environmental due diligence test selected partners. USAID has since categorized FIRM's activities as low in environmental impact. FIRM offered technical assistance to eleven of her partners to develop environmental compliance policies. Having duly been completed, FIRM shall shift focus in monitoring adherence of the partners to the guidelines stipulated in the policies.

FIRM's activity on Financial Regulatory and Market Infrastructure Reform has no requirement for environmental mitigation. It has been "categorically excluded." However, FIRM will continue to address issues of gender, youth, ICT, environment and renewable energy during activity reviews, trainings and studies with partners.